

The University of Chicago

THE TAXATION REFORMS OF THE
CHINESE NATIONAL GOVERNMENT
IN THE DECADE 1927-37

A PART OF A DISSERTATION SUBMITTED TO
THE FACULTY OF THE DIVISION OF THE
SOCIAL SCIENCES IN CANDIDACY FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF ECONOMICS
MARCH, 1942

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YAU PIK CHAU

CHICAGO, ILLINOIS

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CHAPTER XI

CONCLUSION

It was not until after the establishment of the National Government at Nanking in 1927 that the public finances of China began to take shape and became significant in the modern sense.¹ In earlier times, a poorly developed agricultural economy, coupled with a political system which set the individual entirely apart from the government and a social philosophy which stressed a high regard for the traditions and customs of the past, made impossible a highly developed fiscal system.

In contrast to the Western world, where the relation of the state to individual economic welfare has been continuously emphasized though to varying degrees in mercantilism, laissez-faire and present day nationalism, economic activity in China was, from antiquity until comparatively recent times, left to the control of the family and the guild, or to what Professor C. F. Remer has termed "group individualism."² The government did not actively guide or regulate economic activity except perhaps in a spiritual sense. During critical times, such as droughts or floods, it was traditional practice for emperors and

¹In fact, the modernization of China's fiscal system was started by Minister T. V. Soong in 1925 when the Revolutionary Government was established in Canton. However, because its jurisdiction was limited to Kwangtung Province, the reforms of the government did not extend to other parts of China. After the establishment of the National Government at Nanking, the reforms became more numerous and applied throughout the country.

²C. F. Remer, Foreign Investments in China (New York: Macmillan Co., 1933), pp. 27-40. The chapter "Traditional China" is an excellent general analysis of this aspect of life in China.

officials to pray to the gods to relieve the sufferings of the people. Active control of economic activity was left to the family and the customs and traditions of the people and, aside from the maintenance of peace and justice, the functions of government were few.

As a result, government finance in China was largely synonymous with the private finances of its rulers. The tax system itself was very crude, weighted down by traditional rigidity and lacking in equity, diversity, elasticity and flexibility. There were a few miscellaneous unimportant taxes, but chief reliance was placed on a single source of revenue, a land tax.¹ Although

¹The land tax has been the most important source of internal revenue in China. Before the Han dynasty (206 B.C.-219 A.D.), the tax was based upon the produce of land. The tax rate was about ten per cent before the Ch'in dynasty (246-206 B.C.), one-fifteenth in the early part of the Han dynasty (206 B.C.-220 A.D.) and one-thirtieth after 155 B.C. After the Han dynasty, the land tax was measured by the size of land under cultivation with a rate of four sheng per mow. The system underwent a change during the Tang dynasty in 780 A.D. when all taxes (including those on foodstuffs, cloth and labor service) which had been imposed on farmers were merged into a single tax known as the "Two Installment Tax System." This was so called because the tax was paid in two installments, summer and autumn. This practice has continued even to the present day. Although the tax was still paid in kind, money was also theoretically accepted in payment. In 1376, money was accepted as a legal substitute for foodstuffs. One tael of silver, 1,000 cash, or 10 money notes could be accepted in lieu of one picul of rice. After the Tang dynasty, surtaxes were levied in addition to land taxes proper. In 1581 A.D., all the taxes and surtaxes were again merged into a single tax known as the "Single Whip System," in accordance with which farm lands were classified into three grades with three sub-grades under each. In 1724, the collection of the poll tax was merged with that of the land tax. The land tax was called the "tax proper," collected at the rate of one tael per mow, whereas the poll tax was collected at the rate of 2 chin (1 chin equal to 1/10 of a tael) and 7 lee (1 lee equal to 1/1,000 of a tael) per mow. There were, in addition, other kinds of taxes imposed on land. After the establishment of the Republic in 1912 the system became even more confused, due to the levy of numerous surtaxes by different provinces. In Chekiang Province, for instance, there were 739 kinds of land surtaxes up to 1933. In spite of the fact that the land tax had been a main source of national revenue, the First National Finance Conference which was held July 1 to 10, 1928, assigned this tax to provincial governments.

light taxation was, in general, the guiding principle, the burden of taxation varied to some degree according to the whims of the government. When emperors and officials were so inclined, a benevolent government was dispensed to the people and taxes, fines, and punishments were light; if the rulers were extravagant, taxes were made correspondingly heavy and the only method of relief was to overthrow the oppressive dynasty. The revenues and expenditures of the government were neither prescribed by law nor made public to the people; they were arbitrarily determined and changed at will by the rulers.

Tax administration was decentralized, authority for tax collections being delegated by the central government to the provinces (and by them to the districts) which then remitted a definite sum out of the revenue collected to the imperial treasury. The central government did not know how much the provinces collected and spent, and the same was true of the fiscal relations between provinces and districts. Since the people had no

On the average, the land tax amounted to about one-third of the total local revenue from 1931 to 1935 and about one-fourth from 1936 to 1940 (various land surtaxes were not included for 1936-40). At the Eighth Plenary Session of the Central Executive Committee of the Kuomintang held early in April, 1941, it was decided that the land tax should be transferred from the provincial to the central government for collection and readjustment. On November 13, 1940, the Executive Yuan promulgated the general principles for the collection of land tax in kind. In June of the same year, the Third National Finance Conference decided to begin the collection of land tax in kind from July 1, 1941 on. The basis of collection is the total amount of regular land tax and land surtaxes for the current year, and each dollar is translated in terms of two new ta. "To Study Landtax Changes," News No. 8, p. 2706; Cheng Chih Chien Monthly, Vol. IV, Combined Nos. 4 and 5, pp. 1-7, 34-35, 38, 49-51; The Central Weekly (Chungking), Vol. III, No. 38, pp. 2-3; Kwan Chi-yu, "The Problem of Land Tax Readjustment," Cheng Chih Chien Sheh Monthly, pp. 1-7; The Ministry of Finance, China Year Book on Public Finance (Shanghai: The Commercial Press, 1935), Vol. II, pp. 2014-2140; Chu Ch'i, op. cit., pp. 1-155; Liu Pai-ch'uan, Study in the Problems of Land Taxation (Shanghai: Hsueh Han Press, 1937), pp. 1-270.

relations with the government, the theory of taxation was that of the payment of tribute for the support of the Son of Heaven, who theoretically was an exemplar of virtue; the notion of taxes as contributions by free citizens for the rendering of public services by a popularly elected government did not arise until the necessary political arrangements were developed. A not uncommon practice of pre-Republican government finance in China was that, in some cases, administrative offices were distributed by the Imperial Court as benefices rather than as offices with rights and duties.

After the establishment of the Republic of China, despite certain nominal modifications and changes, the same conditions actually prevailed. The Central Government was nominal only. The militarists and warlords levied "excessive and exorbitant taxes," collected the land tax in advance,¹ and made heavy exactions under other names without regard to the weight of the burden imposed on the people. With the establishment of the National Government at Nanking (1927) and paralleling more rapid developments in its economic, social and political life, the modernization of China's fiscal system became significant. This marked the beginning of a period during which drastic reforms were made, and it is this period which is selected for consideration here.

The reforms during the decade 1927-1937 may be divided into four groups. In the first group were included the abolition of likin, and excessive and exorbitant taxes. The likin was a tax on the movement of goods and was collected at numerous barriers throughout the country. Literally speaking, it was a contribution of a thousandth, that is, one tenth of 1 per cent, but

¹Before the national troops marched into Szechuan Province in 1935, the warlords in the province collected the land tax more than sixty years in advance.

as the system developed the rates gradually increased, frequently amounting to 5 or 10 per cent ad valorem. In addition, some seventeen other miscellaneous taxes of a likin nature were collected in a similar manner. The fact that the taxes were subject to arbitrary arrangements by the officials in charge made possible the development of corruption and abuses in their administration. The existence of numerous likin collection stations throughout the country so clogged the movements of goods that, in many cases, they often missed the most favorable market, or lost value through deterioration caused by delay. The heavy burden caused by the high prices of taxed commodities, mostly daily necessities, and the low yield of revenue resulting from the high cost of collection made the likin a great evil to the people. Through the determined efforts of Minister T. V. Soong, it was finally abolished in December, 1930. The main part of the loss consequent upon the abolition of the likin proper, amounting to over eighty million dollars, fell on the National Treasury. The abolition of levies of a likin nature--namely, native customs duties, amounting to \$7,750,000; coast trade duty, \$5,400,000; transit dues, \$3,600,000; railway good taxes, \$1,540,000; and parcel post tax, \$1,070,000, making a further total of \$19,360,000 annually --also fell entirely on the National Treasury.

Before the establishment of the National Government a large number of miscellaneous taxes were levied by the provincial governments. These taxes not only inflicted a heavy burden upon the people but also hampered the development of industry and commerce. In 1934 they were legally abolished in twenty-three provinces and three municipalities through the efforts of Minister H. H. Kung. Such abolished taxes numbered 7,101 kinds and their total yield was estimated at \$67,691,435. The land surtaxes

which were reduced totaled more than 300 kinds, amounting to \$38,742,459. Where the abolition of these miscellaneous taxes was actually enforced, not only was the weight of tax burdens greatly reduced but, in addition, local finances were placed on a simpler basis.

The second group of reforms consisted of improvements in the existing national taxes, such as customs duties, the salt tax, stamp tax, tobacco and wine tax, exchange tax, transactions tax, and mining tax. In the case of customs duties, the most important reform was the recovery of tariff autonomy in 1927. Prior to 1843, the customs rate had been determined by the Chinese Government. As early as 1689, regulations had been set up for the collection of customs duties, although they did not possess some of the essentials of modern tariff system, such as established and uniform rates. By signing the Nanking Treaty in 1842, China lost her tariff autonomy, but acquired a modern customs administration which provided a uniform customs rate of 5 per cent ad valorem for both exports and imports. In effect, however, specific rates were set for the articles prescribed in the schedule, calculated on the basis of 5 per cent ad valorem, due to the fact that the valuations were also set by convention. This tariff system not only restricted China's sovereign rights but, as the general price level increased, it made the tariff revenues yield less than the 5 per cent ad valorem rate.¹ During the existence of the con-

¹To illustrate, suppose at the time the tariff was made by the convention the basic price of a certain commodity was declared to be \$100 for tariff purposes. By calculating on the basis of 5% ad valorem, the specific rate on that commodity was \$5. If four years later the price of that commodity had risen to \$200, and if in the meantime there had been no revision in the tariff rates as limited by the Treaty of Tientsin, that commodity would pay a duty of \$5 just as it had originally. At the \$200 price, however, this would mean an effective rate of only 2.5 per cent and a tariff of only 50 per cent of that attainable under a true ad valorem method based on existing market price.

ventional tariff system the general price level in China rose on an average of from 2 per cent to 4 per cent a year with a consequent loss of possible tariff revenue. Another defect was the taxation of all imports and exports at a uniform rate regardless of their nature (that is, irrespective of whether they were necessities, luxuries, competing or non-competing goods) and regardless of differences in quality (that is, low quality cloth worth ten dollars a bolt paid the same amount of duty as high quality cloth worth twenty dollars a bolt). Moreover, the tariff arrangements with respect to transit duties and coast trade duties were unfair to domestic Chinese merchants. Domestic merchants had to pay numerous inland likin levies for their goods on arrival at any customs station, whereas foreign merchants could transport their commodities to different parts of the country without being subject to any further levy after they had paid a transit duty of $2\frac{1}{2}$ per cent ad valorem. All native goods had to pay a coast trade duty of $2\frac{1}{2}$ per cent ad valorem on arrival at another port after they had paid an export duty of 5 per cent ad valorem, whereas foreign goods were free of such coast trade duties. Under the pressure of the conventional system, China was also forced to extend unreasonable reductions in frontier customs to Russia, France, England, and Japan. Finally, the more clever foreign merchants could avoid the customs duties by packing machinery parts or goods of a similar nature in different "miscellaneous goods boxes," since boxes so labeled were free of the customs duties.

The seriousness of the problem created by the conventional tariff system forced the Chinese Government to struggle by all available means for the recovery of tariff autonomy, which, however, was not obtained until 1930. On July 25, 1928, the Sino-

American Treaty, known as the Soong-MacMurray Agreement (the first treaty between the National Government and a foreign power) was signed, assuring China the beginnings of full tariff autonomy. Thereafter, similar treaties were signed with other countries. The new import tariff schedule, ranging from $7\frac{1}{2}$ per cent to $27\frac{1}{2}$ per cent, was promulgated on December 7, 1928, and put into operation on February 1, 1929. The customs rate for goods not enumerated in the schedule was fixed at $12\frac{1}{2}$ per cent ad valorem, because this rate was the average rate. In reality, complete tariff autonomy was not attained until May 6, 1930, for two reasons: first, the import tariff of 1929 was based upon a seven-grade tariff schedule as devised by British, American, and Japanese experts at the Peking Conference of 1925, and this was still a kind of conventional tariff. Second, Japan did not sign the treaty until May 6, 1930. On December 29 of the same year the tariff was revised, with the rates increased, ranging up to 50 per cent, and the specific rates expressed in Customs Gold Units, which were declared to take the place of Haikwan Tael, owing to the depreciation of silver. For the purpose of offsetting the loss in revenue caused by the depreciation of gold, the tariff was further revised on May 22, 1933. The last revision of the import tariff, ranging from 5 per cent to 80 per cent, was made on June 30, 1934, with the rate of 20 per cent ad valorem applying to articles not enumerated in the tariff schedule.

As regards export duties, there were several salient changes. One was the promulgation, on May 7, 1931, and enforcement, after June 1, 1931, of a new export tariff, which applied only to goods going abroad. For the purpose of encouraging export trade, the export tariff rates were reduced in June, 1934. The last revision of the export tariff, June 25, 1935, affected

270 items of taxable goods. The rates on 50 of these items were reduced and 88 were exempted from duty. Moreover, the specific rates on exports and imports were expressed on the basis of kilogrammes, metres and litres on and after February 1, 1934, in order to comply with the general change of weights and measures into the Metric System.

With respect to salt revenue, the most important reform was a new Salt Law providing a uniform system of taxation and administration which was promulgated on March 21, 1931. The important reforms envisaged in the new law were (1) introduction of free salt trade, (2) control of salt works by means of construction of depots for storage of salt, (3) examination of the quality of salt, (4) reduction of the tax and unification of duty rates, and (5) improvement of salt tax collection offices. They represented an effort to embody in law the reforms which had been effected and to extend the whole system in a more uniform way over the entire country. The proponents of the law believed that the introduction of free salt trade would remove the evils of merchant monopoly and promote keener competition among merchants; that construction of adequate storage depots and the provision of efficient preventive forces would make government control of salt works more effective; that examination of salt would improve the quality of salt and promote the welfare of the people; that consolidation of taxes and unification of rates would increase the salt tax revenue without causing it to become an increased burden on the people, and that simplification of administrative machinery would lead to economy of expenditure and increase of efficiency.

The important reform in the stamp tax was the enactment of a new Stamp Tax Law on September 1, 1935. In the "Provisional Regulations Governing the Stamp Tax," of 1927, taxable documents

had been classified into four groups consisting of 72 kinds, with rates ranging from one cent to five dollars or more. The new Stamp Tax Law extended to thirty-five taxable documents, with rates ranging from one cent to two dollars or more. Its significant provisions were (1) the prohibition of the tax-farming system, (2) introduction of desirable changes in the schedule of taxable documents and the rates thereon, and (3) the sale of revenue stamps by the Post Office and the abolition of the various local stamp tax offices. The last provision was intended to facilitate and enforce the purchase of stamps and to reduce the expenses of administration. To stimulate the interest of local authorities in enforcing the tax, 40 per cent of the revenue derived from the tax was allocated to provincial, municipal and district governments. Under the supervision of the Ministry of Finance, the provincial, municipal, and district governments were made responsible for the inspection of the stamp tax collection.

The major changes in the tobacco and wine taxes were (1) the amalgamation of the administration of the tobacco and wine tax with the consolidated tax administration to form the Internal Revenue Administration, (2) abolition of the practice of tax farming and substitution therefor of a system of collection by agents directly responsible to the government, (3) removal of local surtaxes and other miscellaneous taxes, (4) enforcement of uniform regulations governing the administration of the tax to replace the irregular rules formerly prevailing in the provinces, (5) registration of the tobacco and wine trade merchants in order to facilitate government control and simplification of the control system with a view to its incorporation into the consolidated tax system, (6) abolition of the contract merchant system, (7) organization of a committee for the improvement of the tobacco and wine

tax administration, (8) adoption of the Provisional Regulations Governing the Collection of the foreign wine and liquor tax, (9) the incorporation into the consolidated tax system of the beer tax, foreign wine and liquor tax, and flue-cured tobacco tax, (10) application of uniform flat rates to native wine and sun-cured tobacco, and (11) promulgation of the "Provisional Regulations Governing the Authorized Sale of Tobacco and Wine." In the "Provisional Regulations Governing the Authorized Sale of Tobacco and Wine," there were three salient provisions. First, a policy of merchant sale under government supervision was adopted. Second, tobacco and wine merchants were required to register at the local sub-bureaus or collectorates in accordance with the "Regulations Governing the Registration of Tobacco and Wine Merchants." Third, the selling prices of tobacco and wine were to be fixed by the Provincial Tobacco and Wine Bureaus. Twenty per cent of the approved prices was provisionally fixed as the fee for authorized sale. With the approval of the Ministry of Finance, a different fee might be allowed. The fee for authorized sale was to be revised annually.

Regarding the exchange tax and transactions tax, the Ministry of Finance, on March 19, 1928, changed the "Regulations Governing the Tax on Transactions at the Exchange" into the "Regulations Governing the Exchange Tax." The tax was levied upon the net profits of the exchange, with the rates ranging from 7.5 to 25 per cent. Profits under \$10,000 were exempted from the tax. On February 8, 1935, the "Regulations Governing the Tax on Transactions at the Exchange" were adopted, applying to such articles as gold bars, raw cotton, cotton yarn, flour and grain.¹

¹The rates applied were: (1) standard gold bar (312.50 grammes 978 fine), \$0.06 per bar; (2) raw cotton, \$0.45 per 100

Securities were to be taxed according to the price agreed between buyer and seller, with a minimum value of \$100. The rates established were 0.004 per cent if the forward buying and selling were within seven days, and 0.007 per cent if the forward buying and selling extended beyond seven days. All cash transactions as well as transactions in Government bonds and Treasury notes were exempted from the tax.

The reforms in the administration of the mining tax in this decade were fourfold. First, the regulations governing the mining tax as set up in the Mining Law of 1932 divided mining taxes into a mining area tax and a mining products tax. The annual rate on the mining area was set at 1 cent per acre and on metallic ores under river beds at 1 cent per 10 feet in length. The rates of the mining products tax ranged from 2 to 10 per cent of the market price (the price of the mining products was to be based upon the average market price in nearest market). Second, to increase revenues, a coal tax was levied at the rate of 5 per cent ad valorem. Third, in April, 1933, the administration of the mining products tax was put under the control of the Internal Revenue Administration and incorporated into the consolidated tax system. Finally, the "Regulations Governing the Mining Products Tax" were revised in October, 1934, with the rate of 5 per cent ad valorem made applicable to all mining products (with one or two minor exceptions).

During the decade under consideration, there were several important changes in the demarcation of national and local revenues. One was the enactment, in 1927, of the "Provisional Stand

piculs; (3) cotton yarn, \$1.75 per 100 bales; (4) flour, \$0.35 per 100 bags; (5) grain: beans, millet, grain, \$0.35 per cart load; (6) bean cake, \$0.20 per 100 catties, and (7) bean oil, \$0.20 per 100 piculs.

ard Governing the Separation of Sources between National and Local Revenues," which was revised in 1928. Inasmuch as there was no separation of sources between provincial and district revenues in these early regulations, all local taxes were considered as valid sources of provincial revenues and the districts were forced to levy surtaxes on all local taxes. Since the district governments did not have any fixed revenues, their policies were guided by short-run considerations--a condition which led to the enactment of the Law of the Revenue System, on July 24, 1935. The present Revenue System comprises independent and shared sources of revenue for each grade of government.

The independent sources of revenue for the Central Government are: (1) customs duties, including import duties, export duties, and tonnage duties; (2) commodity production taxes, including salt tax, mining tax and other production taxes; (3) commodity factory taxes, including rolled tobacco tax, match tax, cement tax, cotton tax, flour tax and other factory taxes; (4) regulative commodity taxes, including the tobacco tax, wine tax and other sumptuary and luxury regulative taxes; (5) stamp taxes; (6) special business transaction taxes, including the stock and commodity transaction tax at the exchange, bank-note issue tax, and other special business transaction taxes; and (7) special business profit taxes, including the exchange tax, bank-profits tax, and other special business profit taxes. The independent sources of revenue for the municipal governments under the direct jurisdiction of the Executive Yuan are business license taxes,¹

¹According to the Revenue System, the business license taxes consist of taxes on theaters, hotels, wine-shops, tea-gardens, restaurants, ball rooms, slaughter-houses, and other regulated businesses. Article 4 of the "Regulations Concerning the Revenue System" provides that the broker tax, pawnshop tax, butchery-certificate tax and other taxes of a business license character shall be changed into business license tax.

use license taxes,¹ and regulative activity taxes.² The independent sources of revenue for the district or municipal governments under the direct jurisdiction of the provincial governments are business license taxes, use license taxes, and regulative activity taxes. In the case of shared taxes, each grade of government shares in certain taxes administered by other grades of government. The Central Government shares in the business tax administered by special municipalities and in the district and municipal land tax. The provincial governments share in the municipal and district land tax and house tax, and centrally administered income tax and inheritance tax. The special municipalities share in the income tax and inheritance tax. The districts and municipalities under the jurisdiction of the provinces share in the income tax, inheritance tax and provincial business tax.³ As regards special as-

¹The use license tax shall, in accordance with the Revenue System, include boat and car and other license taxes for the use of public property.

²As regards the "regulative activity taxes," the Revenue System prescribes banquets, movie, theater and other "regulative activity taxes." Such taxes have the character of luxury taxes, therefore they should be regulated for sumptuary purposes.

³The Central Government shares in certain taxes to the following extent: (1) 30 per cent of business tax which is administered by the municipal governments under the jurisdiction of the Executive Yuan, (2) 10 per cent of district and municipal land tax as needed for the improvement of land administration, and (3) 15-45 per cent of land tax which is administered by the municipal government under the direct jurisdiction of the Executive Yuan. The provincial governments share in certain taxes to the following extent: (1) 15-30 per cent of municipal and district house tax (land improvement tax), (2) 10-20 per cent of national income tax, and (3) 15 per cent of national inheritance tax. The special municipalities (municipalities under the jurisdiction of the Executive Yuan) share in certain taxes to the following extent: (1) 20-30 per cent of the national income tax, and (2) 25 per cent of the national inheritance tax. The district or municipal governments (municipalities under the jurisdiction of the provinces) share in certain taxes to the following extent: (1) 20-30 per cent of the national income tax, (2) 25 per cent of the national inheritance tax, and (3) 30 per cent of the provincial business tax.

sessments, Article 14 of the Revenue System provides that each grade of government may levy special assessments upon the owners of real estate for the improvement of roads, dikes, sewerage, and other land and marine improvements within its jurisdiction, and that the amount of the special assessments shall not exceed the actual expenditures incurred for such an improvement.

Introduction of such new taxes as consolidated taxes, income taxes, bank-notes tax, bank-profits tax, and inheritance tax constituted the third group of reforms. The consolidated system was first introduced in January, 1928, with respect to rolled tobacco. The principle of the system is that a commodity once taxed should not be subject to any further levy throughout the country.¹ The consolidated tax was levied upon goods irrespective of who possessed them, that is, without regard to whether they were foreign or domestic goods. It was to be collected at the source. The tax rate on any article included in the consolidated tax system was to be uniform throughout the whole country. The system was later extended to flour, flue-cured tobacco, foreign wines and liquor, cotton yarn, matches, cement, beer, mineral products, alcohol and firecracker materials, with all specific rates except for ad valorem rates on foreign wines and liquor and beer.² In July, 1932, the Consolidated Tax Commission

¹Chinese Year Book, 1935-1936, p. 1331.

²The rates (as of June 2, 1937) on cigarettes ranged from \$100 per 5 mille case at \$200 (or under) to \$800 per 5 mille case at over \$800; on cigars from \$3.10 per mille at under \$6 to \$62 per mille at above \$80; on cotton yarn from \$10 per 100 kilos (count above 35) to \$5 per 100 kilos (count under 17); on safety matches from \$15.60 per case containing 7,200 boxes (48 x 34 x 16 mm. with 75-80 matches per box) to \$24 per case (59 x 40 x 18 mm. with 115-120 matches per box); on phosphorous matches from \$12.60 per case (48 x 33 x 14 mm. with 75-95 matches per box) to \$15 per case (48 x 34 x 16 mm. with 100-105 matches per box); on beer from \$0.07 per litre (in barrels) to \$2.60 per case con-

was amalgamated with the Departments of the Tobacco and Wine Tax and Stamp Tax to form the Internal Revenue Administration.

The income tax, which had been first introduced into the National Budget in 1936, was not enforced until January, 1936, although the government employees began to pay the tax in October, 1936. It is a classified, rather than a general, income tax. The taxable incomes are segregated into three classes; namely, (a) incomes from profit-seeking business enterprises, (b) salaries and emoluments of public functionaries and people engaged in free professions and other profitable vocations, and (c) interest from government bonds, corporation bonds and stocks, and bank deposits. These three classes of incomes do not include all incomes that are realized in the country. The important exclusions from gross incomes are incomes from land, ownership of houses, wages below \$30 per month, and business enterprises with capital under \$2,000 and yielding a corporate earning of less than 5 per cent of their actual capital (even though their capital may exceed \$2,000).¹ Persons exempt from the tax are (1) diplomatic officers of foreign countries residing within the country, (2) aliens who have resided in China for less than one year and whose incomes originate outside the country, and (3) Chinese nationals who reside abroad and are required to pay in-

taining 48 quart-bottles; on alcohol from \$0.065 per litre to \$0.130 per litre; on flue-cured tobacco, \$4.15 per 50 killos; on flour, \$0.10 per bag of 22.23 killos; on cement, \$1.50 per barrel of 170 killos; on foreign-style wine, 30 per cent ad valorem; and on mineral products, 5 per cent ad valorem.

¹Additional exclusions from gross income are (1) income of any non-profit-making juristic person, (2) pensions given to families of military officials, policemen, soldiers and public functionaries, who died or suffered bodily injuries in the execution of their duties, (3) salaries of teachers or staff members in primary schools, (4) pensions of physically disabled persons, (5) all deposits of government institutions of any grade, (6) savings prescribed by law of anyone in public service or any

come tax in the country where they reside. The tax rates are of three kinds; namely, progressive, graded progressive, and proportional. The progressive rates, varying from 30 to 100 per mille, are applied to income from profit-making enterprises, including enterprises of a temporary nature whose income can be calculated on the basis of actual capital. In the case of enterprises of a temporary nature whose income cannot be so calculated, a progressive rate ranging from 3 to 20 per cent is used. In respect of income from salaries and emoluments, the graded progressive rates are employed, starting with 5 cents every \$10 of average monthly income between \$30 and \$65; and increasing to \$1.20 for every additional \$10 of average monthly income between \$700 and \$800. Twenty cents per \$10 is added to the last preceding rate for each successive increase in monthly income of \$100 on incomes over \$800, and a maximum rate of \$2 per \$10 of monthly income applies to all monthly incomes above \$1,105. With respect to income from government bonds, corporation bonds and stocks, and bank deposits, a proportionate rate of 50 per mille is charged. For the calculation of income for tax purposes, certain deductions are allowed to profit-making enterprises and free professions or other profitable vocations.¹ In computing capital, the amount

workman, (7) sinking funds of any educational or charitable institution, and (8) interest not exceeding \$100 received annually on savings accumulated for educational purposes.

¹For profit-making enterprises, the deductions allowed are (1) actual expenses during the operating period, (2) bad debts, (3) allowance for depreciation, (4) wastage of stock, (5) taxes due, and (6) legal reserve. For free profession or other profitable vocations the allowable deductions are: (1) rentals for business premises, (2) salaries and wages for those employed by the business, (3) traveling expenses necessary for the conducting of business, and (4) other direct expenses necessary for the conduct of business.

of unpaid capital, borrowed capital, and the allotted share of capital represented by manual or intellectual labor in the case of a partnership are not considered. Capital means the paid-up capital in case of corporations, or the actual amount invested in other organizations, or, where reserves have been accumulated, one-third of the total amount shall be added to the capital. As regards the method of collection, both stoppage at the source and declaration are used.

The Income Tax Law was enacted to suit the particular conditions in China. There is no institution which is wholly free from defects and no law that ever remains unchanged. That law is best that answers the requirements of the people and accords with the tendencies of the time. China has an extensive territory and a dense population. Communications are not well developed, and there is no adequate system of statistics. All these factors account for the adoption of a classified income tax instead of a general income tax. China is not an industrialized country and therefore sources of big incomes are lacking. Moreover, the standard of living is low. It is for this reason that exemption was fixed so low, and no allowances were defined for family dependents. A modern system of accounting is not universally employed, and the traditional method of keeping account books still prevails in every part of the country. Not only do most of the account books not represent the true and actual business transactions, but their forms are different in various places. Besides, a system of property registration does not exist. Under such conditions to institute an adequate administrative machinery for preventing avoidance of the tax is really difficult. Besides a few capitalists, those who have large incomes are governmental and military officials. All large

profit-seeking enterprises are owned by the capitalists and the officials. The mass of people have no real political power. The fact that the tax rates are heavier on the low income class, relative to their tax paying capacity, than on the high income class might be attributed to the influence of those interested parties. Finally, as Dr. Kung declared, "during the initial stage of the enforcement of the Income Tax it must be made to attain the highest degree of simplicity and cause the least amount of inconvenience.... It should be restricted neither by precedents in other countries nor by purely theoretical considerations."¹

The tax on bank profits was instituted on August 2, 1931. It was levied on the net profits of banks organized as limited share companies, with the rates ranging from 5 per cent on the net profits below 15 per cent of the total capital of the bank up to 15 per cent of the net profit above 35 per cent of the total capital of the bank. Government banks were free of the tax, but semi-official banks were to be taxed as other banks in accordance with the provisions of the Law.

The tax on bank notes was adopted on July 25, 1931, with a rate of $2\frac{1}{2}$ per cent on the security reserve (40 per cent on the note issue), leaving the specie reserve (60 per cent of the total issue) untaxed. On September 23, 1932, the regulations governing the tax on bank notes were revised and the rate was changed to $1\frac{1}{4}$ per cent.

An inheritance tax had been proposed several times in China, but it was not until September 30, 1938, that an Inheritance Tax Law was enacted, and due to the Japanese invasion this

¹H. H. Kung, The Income Tax in China (Nanking: The Ministry of Finance, 1936), pp. 7-8.

Law was not enforced until July 1, 1940. The Inheritance Tax Law is based on the situs of the property transferred and the domicile of the decedent. All inherited properties which are located within Chinese territory are taxable regardless of whether or not the decedent is a Chinese or whether or not he has residence within Chinese territory. The properties of Chinese citizens who have residence in China are taxable whether or not such properties are located within Chinese territory, but foreign-located properties of resident aliens and nonresident oversea Chinese are not taxable. The taxable properties consist of movable and immovable properties and other property rights, with nine kinds of inherited properties exempted from the tax,¹ two kinds entitled to reduced rates,² and four deductible items.³

¹Inherited properties exempted from the tax are (1) estates of less than \$5,000 in value; (2) publications on, and objects of, history, art and culture, owned by soldiers, sailors, and government employees either killed on the battle-field or wounded in the service of the country, and declared for preservation at the Inheritance Tax Collecting Office; (3) properties contributed to local, provincial or central governments; (4) properties of not more than \$500,000 in value contributed to cultural, educational, charitable, or other public institutions; (5) all copyrights on literary or artistic works, and monopoly rights on scientific inventions, acquired or possessed by the heir or heirs to a private estate; (6) properties which are further inherited within three years; (7) farm implements and working tools or equipment of other occupations of less than \$500 in value; (8) trees of immature felling age as provided by law; and (9) insurance funds repaid to the beneficiary or the descendant at the time of the death of the insured.

²Inherited properties entitled to reduced rates are (1) taxed properties which are further inherited in more than three but less than five years, and (2) estates comprised of farming land on which descendants of the deceased continue farming work. The former inherited properties are taxed at the prescribed rate at one-half of their total value, whereas the latter are taxed at one-half of the rates leviable.

³The items which shall be deducted at the time of calculating the total value of the decedent's properties are (1) all taxes, dues and fines payable, (2) all unpaid debts, (3) legitimate expenses of the administrator of the estate, and (4) the value of inherited properties exempted from the tax.

The rates are progressive. On inherited properties of from \$5,000 to \$50,000 in value a flat rate of 1 per cent ad valorem is collected. The rates on inherited properties are graduated from 1 per cent on all amounts in excess of \$50,000 to 50 per cent on all amounts in excess of \$10,000,000. The tax is calculated on the basis of the total value of the decedent's properties inherited.

The final group of reforms is composed of administrative changes. The important ones were: consolidation of tax-collecting offices through the establishment of the consolidated tax system and internal revenue administration; installation of better and stricter accounting methods; improvement of preventive service; betterment of collection methods, improvement of personnel policies and practices; and simplification and centralization of tax administration. The Internal Revenue Administration was established in July, 1932, as a result of gradual amalgamation and readjustment of tax offices started by Minister T. V. Soong in 1928. It had charge of practically all national taxes aside from the customs duties under the charge of the Customs Revenue Administration, the salt tax under charge of the Salt Revenue Administration, and the income tax under the charge of the Income Tax office. As compared with the numerous tax offices of the past, such consolidations are a major achievement in tax administration during the decade under consideration.

Despite all these changes, there are still many important problems which should be considered. There exist, first of all, many important problems over which the fiscal expert has no control but which must be recognized as factors influencing and conditioning tax reforms. Because industrialization and modern western civilization in general has hardly penetrated to the

interior of the country, the reforms which have been made affect the modernized cities much more than the interior villages. For this reason, nationwide fiscal reconstruction must await the coming of nationwide economic development. Similarly, political instability and lack of written constitutional government has in the past limited fiscal reform and makes future progress very largely dependent upon the attainment of stable government, and the education of the people to the wisdom and benefits of modern methods of taxation.

The important taxation problems have generated from the fact that the main sources of national revenue have been consumption taxes, and this fact has made inevitable the development of numerous defects. The most important of the defects to be removed are fivefold.

In the first place, all national taxes have been levied without regard to the economic status of the taxpayers. They are impersonal taxes, very different from personal taxes, which are levied upon persons according to their paying capacity. In the latter, amount of debt, number of dependents, etc., are all given due consideration. In the national taxes of China, these factors are disregarded. Customs duties, salt tax, consolidated tax, stamp tax, etc., are all taxes levied upon things regardless of the economic status of the taxpayers. The same is true of the Chinese income tax, because it is a classified, rather than a general, income tax. This kind of tax system has resulted in an inequitable distribution of tax burdens upon the people.

Secondly, most of the national taxes have been indirect taxes. According to the 22d annual report (July 1933 to June 1934) of the Ministry of Finance, the total revenue was

\$689,488,337.15,¹ whereas the revenue from customs duty, salt tax, consolidated taxes, and tobacco and wine tax was \$647,825,-382.42; thus the latter figure accounted for more than 94 per cent of the total revenue. For the 23d fiscal year ending June 30, 1935, the total revenue was \$775,973,515, which included \$658,167,573 from taxation and \$645,913,996 from indirect taxes.² The revenue from taxation was more than 83 per cent of the total revenue, and the receipts from indirect taxes were more than 97 per cent of the revenue from taxation. It is evident that more than 90 per cent of the national taxes were indirect taxes. Since indirect taxes were paid according to the amounts of commodities which the taxpayers consumed regardless of their tax-paying capacity, the tax burdens upon the poor were much heavier than upon the rich.

Thirdly, the provincial revenue as provided in the Revenue System of 1935 is inadequate. The existing important sources of provincial revenue are the land tax and business tax. According to the ratio of principal receipts to total revenue of twenty provinces for the fiscal year 1933-34,³ the land tax accounted for the largest percentage of total revenue. In the Revenue System it is provided that the local land tax shall belong to district and municipal governments, and that only 15 to 45 per cent of the land tax shall go to the provincial government. Thus, if the 1935 Revenue System were to come into effect, provincial land revenue would decrease from 85 to 55 per cent. Moreover, although the Revenue System prescribes the business tax as a

¹The total revenue included the receipts from taxes, government properties and enterprises, government administration, profits on government enterprises, provincial governments and others.

²See China Year Book, 1938, pp. 470-71.

³Chinese Year Book, 1936-37, p. 710.

source of provincial revenue, it also provides that 30 per cent of the tax shall go to the district governments. Taking these two figures into account, it is estimated that the provincial revenue would decrease by about 40 per cent. Now, let us compare the total revenue and expenditure of Kiangsu province for the fiscal year 1935-36 if the revenue were decreased by 40 per cent. The total revenue was \$26,986,022, and, if decreased by 40 per cent, would decline to about \$19,096,175.¹ In comparison with the total expenditure of \$31,644,428 for this fiscal year, the deficit would be about \$12,548,253. Again, the expenditures for the provincial government would be increased by two more items under the Revenue System as compared with the existing system. The addition of such items would inevitably increase total expenditure. It was argued that the remedy for such decrease of revenue and increase of expenditure was provided for in the Revenue System by allotting from 10 to 20 per cent of the national income tax receipts and 15 per cent of national inheritance tax receipts to the Provincial Governments. But in view of the present situation of the income tax and the inheritance tax, making up the loss caused by the operation of the Revenue System creates a real difficulty.

Moreover, the methods of classification of revenues as provided in the Law of the Revenue System of 1935 are also inadequate. Under the national revenue are listed such main categories as customs duties, commodity production tax, commodity factory tax, commodity regulative tax, stamp tax, income tax, inheritance tax, etc. Logically, the commodity production

¹Ibid., pp. 706-9.

tax and the commodity factory tax should not be listed as main categories as are income tax, customs duties, stamp tax, and inheritance tax, for the former, that is, commodity production tax and commodity factory tax, are names which refer to the methods of collection, whereas the latter, that is, income tax, customs duties, etc., are names which refer to the objects taxed. Moreover, the distinction between commodity regulative tax and commodity factory tax is not clear. For instance, the rolled tobacco tax listed under the commodity factory tax may also be listed under the commodity regulative tax, since the consumption of rolled tobacco should perhaps be regulated as is that of wine and tobacco which are listed under commodity regulative tax. Moreover, the wine and tobacco tax listed under the commodity regulative tax may also be listed under the commodity factory tax as it implies the method of collection upon the taxable object going out of the factory.

Fourth, the existing tax-collecting offices should be further amalgamated, although a certain number of tax-collecting organs were consolidated during the period under consideration. In various provinces there are still many duplications of unnecessary tax-collecting organs. As explained previously, the Internal Revenue Administration has charge over practically all national taxes except customs duties, salt tax and income tax, but, in reality, they are administered by different collecting organs in various provinces and localities. In the case of wine and tobacco, there are further duplications of administrative organs. For example, the collections of fees for authorized sale of wine and tobacco, of wine and tobacco tax, and of native wine and sun-cured tobacco are administered by different collecting

organs. The existence of such duplications has been the main cause of high collection cost.

Finally, the surtaxes, in many cases, have been many times more than the taxes proper. As far as the paying capacity of the people was concerned, the taxes proper were considered very heavy even without the extra burdens of various surtaxes. In the interest of equity, surtaxes should be reduced to the minimum permitted by revenue considerations.

For the correction of all these defects, reforms should be made concerning, first, the principles of taxation; second, the specific provisions in each separate tax; third, the general methods of collection; and, finally, the classification and provisions of revenue sources in the revenue system. Concerning the taxation system in general, several principles should be observed.

First, in order to decrease the undue tax burdens of the mass of the people, consumption taxes, such as salt tax, consolidated tax, etc., should be reduced and more direct taxes, such as capital tax, excess profits tax, gift tax, land increment tax, property registration tax, etc., should be instituted in order to make the well-to-do class contribute their proper share to the government. In order to increase the tax contribution of capitalists, bankers, speculators, and professional classes and the well-to-do in general, the tax system should be so reconstructed as to be based more largely than before on personal taxation; that is, taxation according to the economic status of taxbearers. In such reconstruction, the economic effects of taxation should be taken into consideration. If the imposition of a tax has injurious effects upon domestic industry and commerce, it should be abolished or, at least, reduced in order to maintain intact the

national economy. Finally, the traditional rigidity in the tax system should be removed, that is, any traditional tax which does not suit the present condition of China should be discontinued. Forms of wealth and economic conditions have changed with the passage of time. What was considered the best in the past may not suit present conditions. Many defects of the present tax system may be attributed to such a traditional rigidity.

Concerning the specific provisions of each national tax, the following reforms should be made:

I. Customs Duties

A. Export duties should be abolished. Chinese goods which are exported abroad pay not only export duties but also numerous internal taxes. Even without these tax burdens, they cannot stand international competition, owing to industrial infancy in China as compared with more efficient large-scale production in other countries and owing to the fact that most industrialized countries no longer tax their exports. In order to promote the development of the foreign trade, the export duties should be abolished, except those levied on products for which China enjoys a monopoly or a near-monopoly.

B. A dumping tax should be imposed upon imports of a dumping nature. There are two devices which can be used for stopping dumping. One is the imposition of a dumping tax on such imports. Another is the institution of countervailing duties. Since the Chinese tariff is a kind of "single-line" tariff, it is impossible to prescribe the countervailing tariff (differential duties). The dumping tax is the only device which can be utilized in China for stopping unfair international competition. On February 9, 1931, the Dumping Tax Law was pro-

mulgated, but it was never put into operation. Moreover, there was no provision, in the law, of special rates for the purpose of stopping exchange-dumping. Exchange-dumping is a powerful weapon in commercial warfare, and a major evil of post-war currency depreciation had been widespread dumping of surplus commodities in foreign countries. In order to protect infant industries in China from unfair competition, an exchange-dumping tax should be imposed.

C. The interport duty should be abolished for three important reasons. First, almost all commodities are subject to the interport duty, because the Customs Interport Tariff of 1931 consists of 516 items of taxable articles, exemption being extended only to 41 items. The commodity duties should be limited to a few commodities only, in the interest of consumer welfare, so as to reduce their harmful effects on trade. Second, the procedures of reports and duty payments at customs are so complex that the movements of goods are impeded by costly delays and possible losses in value. Third, since the interport duties are applied only to native goods, not foreign goods, they impose a competitive disadvantage on domestic producers. By raising the prices of domestic goods, they make it difficult for native producers to compete against duty-exempt foreign goods.

D. The import tariff should adopt specific rates, because specific rates are more effective for protective purposes than ad valorem rates, especially during a time when other countries are depreciating their currencies. If ad valorem rates are used instead, the amount of revenue collection is bound to decrease, as the exchange rate falls. Moreover, with ad valorem rates, dumping of foreign goods in domestic markets is facilitated.

Finally, if ad valorem rates are used, the administrative difficulties involved in the determination of duty-paying values can not be avoided.

E. A maximal- and minimal-tariff, or a general- and conventional-tariff, or a complex tariff should be adopted. The Chinese import tariff is a "single-line" tariff. Under a "single-line" tariff system, one rate applies to one article regardless of the country of origin; preferential rates are not extended to any country. At the present time, international commercial relations are so complex that the "single-line" tariff is inadequate. Some trading countries are Treaty Powers, some Non-Treaty Powers, some Reciprocal-Treaty Powers, and others most-favored nations. If all countries are given the same treatment, serious disadvantages may result.

F. The import tariff should be revised with respect to machinery, industrial raw materials, cotton piece goods, and papers. Raw cotton, steel tools, agricultural machinery, electrical machinery, sewing and knitting machines, prime movers (such as gas, oil, and steam engines), bleaching powder, hydrochloric acid, nitric acid, chemical fertilizers, and other industrial raw materials should be taxed at lower rates. In most industrialized countries, industrial raw materials are exempt from import duties, whereas in China a non-protective fiscal policy has been adopted. In regard to cotton piece goods, printed and dyed, and paper, the import duties should be raised in order to prevent their dumping in domestic markets. But in the Import Tariff of 1934, the highest duty rate on cotton piece goods, printed and dyed, is not more than 25 per cent, which is insufficient to prevent dumping of Japanese goods in domestic markets.

II. Salt Tax

A. The systems of "Government Salt Traffic District," monopoly merchant (chuan shang)¹ and contract merchant (pao shang)² should be abolished. This proposal appears unnecessary because the provision of free salt trade in the new Salt Law of 1931 theoretically puts an end to the existence of such systems. But, in fact, the new Salt Law had never been enforced, with the exception of the construction of a number of salt depots. The important factors which are said to have prevented the Law from being carried into effect since its promulgation are, first of all, the financial conditions. Although the new Law would be productive of increased revenue in the long run, as a result of the reforms envisaged in the Law, the carrying out of these reforms might have temporarily dislocated the salt trade and threatened a decrease in the revenue yield during the time when there was constant call on the Minister of Finance for sinews of war. Secondly, if the Law had been put into effect, those salt works where the cost of production was high would have been driven out of business and the problem of profitably reabsorbing the unemployed producers into other industries would have been almost impossible to solve under existing economic conditions in China. Thirdly, the engineering projects which are indispensable to the effective prevention of smuggling require time and finances for their completion. Before such necessary adjustments

¹Monopoly merchants were certain salt merchants who had salt permits and were allowed to engage in salt business within certain designated consuming districts. They were given the monopoly privileges of distributing and selling salt within those districts.

²Contract merchants were the salt merchants who were given the monopoly privileges of distributing and selling salt within certain designated consuming districts for a prescribed period of time.

could have been completed, smuggling would have increased, which would have affected the revenue collection adversely. Finally, the unsettled conditions in the country which deprived the Central Government of control over some of the salt areas have made it impossible to enforce the comprehensive reform envisaged in the Law. The existence of these conditions, however, do not prevent the abolition of the defective systems of the "Government Salt Traffic District," monopoly merchants (chuan shang) and contract merchants (pao shang). The government can abolish the monopoly privileges of those monopoly merchants who are not short of the payments of the prescribed revenue by giving them certain compensations. In the case of those who are short of the revenue payments, the government should deprive them of the monopoly privileges in salt business. The monopoly privileges of the contract merchants should be discontinued upon the expiration of the prescribed period. Such treatment would make it easy to open the salt areas for free salt trade, and the evils of such defective systems would naturally be removed. If the defective systems are allowed to continue unrectified, desirable and possible reductions in tax burdens will be lost and revenue collections will not be improved.

B. The tax rates should be reduced and all central and local surtaxes abolished in order to lighten the tax burdens of the people. According to the research of Mr. Ts'un Liang Liu concerning the burden of salt taxation in China in 1933, the average rate of duty proper was \$2.82 per picul, the average rate of surtax \$7.217 per picul, and the total average tax burden per picul \$10.037. As the duty rates increased in later years, and after the enforcement of the metric system of weights and measures

in 1934,¹ the tax has increased to the extent of almost 100 per cent of the salt price. Such heavy rates have driven the people to smuggling regardless of heavy punishments. In most foreign countries, salt, being a necessity of life, is not taxed. In China, the salt tax has been one of the main sources of national revenue, therefore it cannot be abolished without driving the National Government into serious financial difficulty. Before any available source of revenue can be substituted in its place, the tax rates should be reduced and the central and local surtaxes abolished. With successful operation of the income tax, inheritance tax, capital tax, gift tax, and excess profit tax, it should be abolished altogether.

C. The salt tax revenue should not be pledged as security for any kind of loan. Since in the past it was pledged as security for foreign loans, not only were the rates increased from time to time to meet the demands of the loan services, but also necessary reforms in salt tax administration were made impossible thereby. Besides, the control of the salt tax administration has been lost into the hands of foreign powers which extended the loans to China on the security of the salt revenue.

D. The new Salt Law cannot be indefinitely postponed and should be enforced. All the factors, except the unsettled internal conditions, which are considered to have prevented the Law from being carried into effect, cannot be regarded as serious obstacles to the enforcement of the Law. The advantages which will result from its enforcement are by far more important than

¹After the enforcement of the metric system of weights and measures in 1934, the rates on salt were increased to the extent that the existing rates per picul were made leviable on every 50 kilos, which is equivalent to 0.877359 picul ssuma scale, because under the old standard, one picul weighed 100 catties of salt, whereas under the new standard one picul weighs 180 catties.

the disadvantages and losses occasioned by the operation of the Law. As soon as the unsettled conditions in China are over, the Law should be enforced.

III. Consolidated Taxes

A. Rolled Tobacco Consolidated Tax. a) The number of grades into which rolled tobacco is classified for tax purposes should be greater than the number prescribed in the existing regulations so as to suit the different paying capacities of the people. b) The tax rates applied to rolled tobacco of high and middle grades should be increased, whereas those on the low grades should be lightened in order to lower prices.

B. Cotton Yarn Consolidated Tax. Either the cotton yarn consolidated tax should be abolished or the rates on imported cotton yarn should be increased. A third possibility is the adoption of a 5 per cent ad valorem rate so that the evils of differential rates against low-grade cotton yarn can be avoided.

C. Consolidated Taxes on Cement and Matches. The tax rates on Japanese cement and matches should be raised in order to counteract Japanese dumping of these commodities.

D. Flour Consolidated Tax. The consolidated tax on flour should be abolished for promoting flour-milling enterprises and lightening the burden of the people. Flour, being a daily necessity of life, should be free of tax.

IV. Stamp Tax

A. Although the stamp tax rates should not reach very high levels, the rates themselves should be graduated in proportion to the values of taxable documents. In the case of certain taxable objects without stated values, such as paper posters,

bulletin boards, illuminated signs, painted signs, etc., the rates should be graduated on the basis of size or units. Most of the existing rates are fixed for each document, therefore, the higher are the exchange values of taxable documents, the lower are the effective rates thereon. As a result, not only is a heavier burden imposed upon the middle class than upon the wealthy but also a significant amount of possible revenue is lost thereby. These defects could be reduced by graduating the rates in proportion to the value of taxable documents.

B. The tax base should be broadened. The existing stamp tax is largely a tax levied upon acts. In order to increase the revenue from the tax, it should be extended to other than the documents specified in the Law, such as certificates for transfers of real property, title-deeds, petitions, applications, advertisements (in newspapers, magazines, and books), signboards, playing cards, paper posters, painted signs, illuminated signs, trade marks, bulletin boards, advance notices, checks, and other special objects and notarial acts. Checks were subject to the tax under the Stamp Tax Law of 1935, but were exempt from the tax in the revised Article 16 (Item 4) of 1936. The exemption of checks from the tax has no equitable justification. They should be included as taxable objects, because the holders of checks have ability to pay the tax.

C. All kinds of taxable documents which have not paid the stamp tax according to the provisions of the Law should be declared legally invalid. All judicial and administrative offices of the Government should refuse to accept such documents. Since the stamp tax law determines certain relations between rights and duties, and supplied information for other taxes, a comprehensive

reform in the administration of the stamp tax will not be realized without the help of the judicial and administrative offices.

D. In order to attain comprehensive reform in the administration of the stamp tax, a sound documentary system should be established. All petitions, appeals, applications, and documents subject to stamp taxes should be on documentary papers prescribed by the Government. No selling, buying, renting or conveyance of realty and other important acts of transfer of property rights should be valid before law without using such documentary papers. In interior villages, most of the people still follow their traditional methods and do not use documentary papers in the buying, selling, mortgaging, renting and transfers of real property or in other important similar acts. Compulsory use of documentary papers would, therefore, increase the use of revenue stamps and stamp tax collections.

E. Most of the people in the interior do not understand why they should affix revenue stamps to documents; therefore, the government should through proper officials educate the people in the reasons for the use of the revenue stamps.

V. Income Tax

A. Scope of the tax.

1. On the basis of justice, property income should be taxed as are other taxable incomes. It may be reasonable to exclude the incomes of property owned by small farmers from gross incomes on the basis of rural economic conditions in China, but it is hardly justified to exempt incomes from estates owned by great landlords. Even if all incomes from country property should be excluded, all property incomes in cities should be included in gross incomes. In villages, almost all the people own

their own houses and very few people rent homes from others. Even if there are some cases where some people rent houses from others, the amount of rent is too low to be taxed. But the conditions in cities are entirely different. Many people do not own the homes where they live and many people build houses to rent them. As regards farming land in villages, there are more cases where the people lease the farming land from other landlords for cultivation than cases where people lease homes, and the amount of rent is much lower than the prevailing rate of interest; that is, the amount which should have been received from the capital invested in other than land-holdings. In cities, the returns from land investments are usually high and the value of all real estate has increased so much that many estate owners have become millionaires, owing to the modernization of cities. At the present time, there is no land increment tax; therefore, the great landlords do not pay their proper share of taxes.

2. The incomes of residents and non-resident citizens and resident aliens should be taxed regardless of their sources, whereas the income of non-resident aliens which originate in the country should be included in gross incomes. There are no such provisions in the "Provisional Regulations Governing the Income Tax." The best example for this is the tax of the United States.¹

3. The tax should apply to the incomes of foreign diplomats of the rank of foreign consul general and of lower ranks which are derived from sources (such as interest on bonds and profits of enterprises in the country) other than performance of

¹The income tax of the United States applies to (1) the entire income of all residents, whether citizens or aliens; (2) the entire income of all United States citizens, regardless of residence; and (3) the income of non-resident aliens which originates within the United States. (However, there are some exceptions provided in I.R.C., Sec. 116-a and 131a.)

official duty, so as to comply with the principle laid down under b; that is, taxing the incomes of resident and non-resident aliens which are derived from sources within the country.

4. Bonuses distributed by corporations should be taxed in order to prevent the corporations from avoiding the tax by distributing their profits in the form of bonuses to their shareholders.

B. Exemption

1. Certain portions of retirement funds and pensions which may already have been taxed and represent repayment of capital should be exempt from the tax, and a certain portion of the pension which represents interest on capital should be taxed under Income C.

2. A certain portion of the repayment insurance premiums which represents repayment of capital should not be taxed, but the excess of the repayment over the premiums actually paid by the insured should be taxed under Income C.

C. Computation of Income

1. Including capital in the computation leads to pressure for a high invested capital; that is, overvaluation of capital. Moreover, it discriminates against conservatively capitalized enterprises. In order to avoid such discrimination and prevent the overvaluation of capital for tax avoidance, a capital tax graduated according to the amount of capital should be instituted.

2. Article 7 of the "Rules Concerning the Provisional Regulations Governing the Income Tax" explains that capital is the paid-up capital in the case of a corporation, or the actual amount invested in an organization, but does not explain what the paid-up capital or the actually invested capital includes and

how it is computed. Business capital is usually composed of paid-up cash, immovable property, movable property (such as stocks and bonds), and intangible property (such as good will, surplus, and undivided profits), with the exclusion of borrowed capital. The questions as to whether or not immovable property is calculated on the basis of its market value or original value, or the value of stock representing such property; whether stocks and bonds are computed on the basis of their market value or face value; whether all intangible properties are included; and whether stock bonuses should be included, are all essential considerations in the computation of capital and should be definitely answered and prescribed in the "Rules."

3. The entire reserve should be included in the computation of capital instead of one-third of the total amount. Article 7 of the "Rules" provides that if any reserve funds be kept, one-third of the total amount shall be added to the capital, but does not explain whether these reserve funds refer to those appropriated within the fiscal period or to those accumulated in the past. If they refer to the former, their inclusion in the capital is unreasonable, because they represent a part of the profit earned within the fiscal period. Moreover, such inclusion will open a loophole for tax avoidance, because more profits will be transferred to reserve funds with the result that the net profit left for taxation is decreased and the amount of capital increased, which means lowering the amount paid for the tax. If they refer to the latter, they should be entirely included in the capital, because reserve funds are used in business for making profits and are not different from capital.

4. The losses caused by such forces as those arising

from hurricanes, fire and flood, should be included as deductible items from actual cash receipts.

5. Capital expenditures, special assessments, and taxes paid to foreign governments should not be deductible as actual expenses. Special assessments may increase the value of property assessed.

6. Unabsorbed losses which can be carried forward to reduce the taxable income of any subsequent year should be treated in the manner presented by Professor Henry C. Simons in his Personal Income Tax.¹

7. Some definite provisions should be made for the taxation of such incomes as arise from copyrights, patents, interest from private lending, and buying and selling of real estate and "permits for transporting salt."

D. Tax Rates

1. Earned income should be taxed at a lower rate than unearned income, because labor income is more precarious than income from property. Earned income stops with the death or inactivity of the earner; property income goes on.

2. An exemption allowance for family dependents should be provided in the Law. Persons having the same amount of income may have different numbers of dependents and therefore have different capacities to pay. To make them pay the same amount of tax would result in injustice.

3. Tax rates on high-income classes should be much heavier than those on low-income classes, because the former has more tax-paying capacity than the latter. With this in mind, the top rates should be increased.

¹Henry C. Simons, Personal Income Taxation (Chicago: University of Chicago Press, 1938), pp. 212-213.

4. The government should prepare to substitute a general income tax and a corporation income tax for the present classified income tax. The general income tax is based upon the economic status of each taxpayer, that is, his ability to pay. In the historical development of income taxes in different countries, classified (scheduled) income taxes, that is, taxes on certain particular incomes, were generally adopted first and then developed into general income taxes. The best example of this is the scheduled income tax and the super-tax (later replaced by surtax imposed upon the entire income) in Great Britain. The same is true of the income tax in France, which may be grouped under two heads: (1) a subsidiary income tax levied in seven schedules on the income of individuals and companies, arising in France, and (2) the global income tax which applies to the aggregate income of residents. Another early income tax, that of Prussia, began in 1811 as a uniform poll tax of $\frac{1}{2}$ thaler, and became in 1891 a true general income tax. Since there have been successful experiences in other countries, it is unreasonable to believe that a general income tax cannot be carried out successfully in China.

VI. Tobacco and Wine Tax

A. The tobacco and wine tax should be abolished and the authorized sale of these two commodities strictly enforced. The important defect of the existing administration is the co-existence of the old tobacco and wine taxes (which were theoretically abolished by law) and the newly instituted collection of a fee for their authorized sale (supposedly replacing the old system of taxes) because it results not only in double taxation but also in duplication of administrative organs. Even though their

double taxation may not inflict an excessive burden upon the consumers, the duplication of administrative organs increases the cost of collection.

B. The rate of fees for authorized sale of tobacco and wine should be unified throughout the country and strictly observed. Injustice remains as long as the fees for authorized sale of the two commodities are allowed to continue at different levels in different provinces.

C. In order to suit the consumers' ability to pay, tobacco and wine tax rates should be classified, in accordance with their qualities and prices, into several grades.

D. The customs rates on tobacco and wine imports should be heavier than the rates of the fees for authorized sale so as to forestall their dumping in China.

VII. Exchange Tax and Transactions Tax

The rate of the exchange tax should be higher than that of the transactions tax. The reason is simple. The burden of the former tax falls upon the net profits of brokers, whereas that of the latter tax falls upon buyers and sellers. At the present time the rates are rather low. In order to check speculation at the exchange, they should be raised, especially on gold bar. The large profits of the exchange represent substantial taxpaying capacity and should be taxed at a higher rate.

VIII. Mining Tax

A. The rates of the mining tax should vary with different mining products according to whether or not they are of a luxury character. Such mining products as diamonds are more of a luxury in character than gold and silver, and gold and silver are more of a luxury character than tin, lead, etc. The rates

on the luxuries should be higher than those on the necessities. Thus, the rate on coal should be lowered, since the coal is a daily necessity.

B. The collection of tax should be unified throughout the country for facilitating control and promoting administrative efficiency.

IX. Inheritance Tax

A. The exemption allowed on inheritance properties of army and navy officials and soldiers and government employees either killed on the battlefield or wounded in the service of the country should be limited to properties under a certain value. To exempt properties of a great value, say, several million dollars, would be unfair to those who are required to pay the tax for the inherited property of a much lower value.

B. The funeral fees of the deceased, and a certain sum for the education of his descendants, should be allowed before the determination of the tax.

C. The allowance for such properties as represent the joint efforts of the decedent and other members of his family should be provided. In China the property of a family is not usually the result merely of a decedent's efforts; other members may make some contributions to the property. Suppose three brothers worked together for the accumulation of the family property. When one of the three brothers dies, the tax should be levied upon one-third of the total family property.

D. The period within which the tax must be paid after the notification of the Inheritance Tax Collecting Office should be longer than provided in the present Law in order to prevent losses consequent upon the sudden liquidation of the inherited

estate. It may be extended to, say, nine months or even several years, within which the administrator of the estate and the heirs are permitted to work out their problem.¹

E. The portion of the estate which has been accumulated by other members of the family should be exempted from the tax.²

F. In order to prevent the avoidance of the tax through gift, a gift tax should be instituted.

G. A solution as to the problem of multiple taxation should be provided. If the home countries of aliens who leave properties within Chinese territory adopt domicile as the taxable basis, the problem of multiple taxation can be solved on the basis of international reciprocity.

X. Bank-Profits Tax and Bank-Note Issue Tax

A. Banks organized as joint companies, joint share companies, and unlimited companies should be taxed as banks organized as limited share companies. According to the law governing the tax on Bank Profits, only banks organized as limited share companies are subject to the tax. Other banks, such as those organized as joint companies, unlimited companies, and joint share companies, are taxed under the Business Tax Law. Such arrangements arouse complaints, because taxation of banks under different laws results in unequal burdens on various banks. Moreover, old-style banks, most of which are organized on proprietorship or partnership basis, are free of the tax. From the

¹The federal estate tax of the United States is permitted to be paid over a period of not more than ten years (Refer to Law I.R.C., Sec. 822 (a) (1)).

²Article 11 provides that special properties belonging to the descendant's wife and children, when registered and authenticated, shall not be included in the total value of the estate for the collection of inheritance tax.

standpoint of equity, they should be taxed as banks organized as limited share companies. The fact that the actual net profits of such banks cannot be determined, because their accounts are kept by old-fashioned methods, is no excuse for exemption from the tax. Such banks are numerous and are scattered in various parts of the country. Their taxation would yield substantial amounts of revenue. Again, such banks are owned by wealthy merchants and taxation of their net profits would lead to two good results. First, their luxurious consumption would be cut down. Some may argue that taxation of their net profit might impair the accumulation of capital. Such an argument should be carefully examined. Most of the wealthy people in the interior villages and cities always use their money for building ancestral temples, or for other luxurious and unproductive purposes. They do not invest their money in industry or other productive enterprises. Taxation of such banks would enable the government to utilize their money for productive purposes. Second, the evils of the family system may be reduced. In China, most of the people toil early and late in order to save money for their sons. If those people who become wealthier through the privilege of organizing such banks can not be reached by the tax, their fortunes are enjoyed by the younger members of their families. Consequently, not only is the enterprising spirit of the younger members weakened by the fact that they live on the resources of their elders, but also, by allowing the young couples to rely upon the support of their families, undesirable early marriages are encouraged.

B. The rates of these two taxes are low. They should be raised for two reasons. First, the bankers in China contrib-

ute to the cost of the government much less than farmers as far as their tax-paying capacities are concerned. It is a well-known fact that more than 90 per cent of the national revenue from taxation is derived from indirect taxes. All these taxes are of the nature of consumption taxes and their incidence is on the mass of the people. In the case of local finance, the land tax has been the main source of local revenue. It is a direct tax, but it is borne by the farmers. No one can tell the number of taxes each farmer pays, besides the payment of the land tax proper and numerous surtaxes. On the other hand, most of the bankers own real estate in cities and their estates are not subject to an increment tax, although the value of their estate is greatly enhanced through the modernization of cities. Second, the net profits of such banks represent substantial tax-paying capacity and should be taxed at a higher rate.

Concerning the methods of collection, the following principles should be observed:

First, the system of contract merchants should be abolished and all taxes should be collected by governmental officials. The existence of the contract system gives the merchants opportunities to misuse their privileges. After having obtained the privileges, they squeeze as much as possible regardless of the sufferings of the people before the expiration of the monopoly contract.

Second, the system of monopoly merchants (chuan shang) should be abolished and no merchant allowed to have the monopoly privilege of collecting any national tax. Its evils are greater than those of the contract merchant system, because in the former the time of monopoly is not prescribed, and the monopoly privilege is evidenced by the license possessed.

Third, the regulations governing the prohibition and punishment of illegal exactions and bribery should be publicized so as to remind and warn the officials who have the opportunity to abuse their power.

Fourth, leakage in the collection of taxes and smuggling should be eliminated. The difficulty in this case is that the public is willing to split with tax collectors to get some slight advantage. This difficulty may be diminished by imposing penalty upon those who are found to split with the tax collectors.

Fifth, tax-collecting offices should be further amalgamated and centralized. The Customs Revenue, Salt Revenue, Internal Revenue, and Direct Tax administrations are independent of one another. A National Tax Administration should be organized to ensure the unification of tax collections. Moreover, there are still many tax-collecting offices in different provinces which should be further consolidated. These measures would result in considerable reduction of administrative costs, increase the efficiency of administration, and ensure the coordination of national, provincial, and local taxation.

Sixth, strict accountancy and publicity of revenue accounts should be enforced. Efficient administration requires popular participation, because efficiency without popular participation usually results in dictatorship. Strict accountancy and publicity of revenue accounts are the surest means of securing popular participation. With this, secrecy, the source of various corrupt practices, would be mitigated.

Finally, wasteful expenditures through improper personnel policies and practices should be prevented. The relation between tax system and personnel is so important that without

an adequately trained personnel, a good tax system cannot be realized. Measures necessary for the attainment of this goal are, first of all, the strict enforcement of a Civil Service system in the selection of personnel. Second, after government employees are so selected, they should be trained for a certain period of time in a special training school before they are put in office. Third, the personnel should be promoted according to merit. Fourth, unnecessary personnel should be eliminated for the economy of administration. Fifth, security of tenure should be prescribed in the Law, and no employees should be discharged without due cause. Finally, salaries should be adequate and regular.

Finally, the Revenue System should be revised with respect to the methods of classification and distribution of revenue sources among different levels of government. So far as the methods of classification are concerned, the main categories of revenue sources listed under the national revenue should be (1) customs revenue, (2) excise taxes, including salt tax, wine and tobacco tax, consolidated taxes, and other excises, (3) transference taxes, including stamp tax, commodity and stock transaction tax, inheritance tax, bank-note issue tax, and other transference taxes, (4) income tax, (5) special business profits taxes, including exchange tax, bank profits tax, and other special business profits taxes, and (6) shared taxes. In order to provide a more adequate revenue for each level of government, new taxes, such as gift taxes, capital tax, corporation income tax, and consolidated taxes on silk, should be introduced as additional sources of national revenue, and a property registration tax, land increment tax, and central subsidies should be adopted to supplement local revenue.

In the extension of central subsidies to local governments, three principles should be observed. First, the central subsidy to localities should be based on the needs and the expenditures scrutinized with the utmost care. Second, a relatively larger subsidy should be given to frontier provinces and poor districts as compared with more prosperous provinces and districts in order to attain the parallel development of administrative activities among various provinces and districts. Third, the achievements of the subsidized governments and the efficiency of their administration and activities should be taken into consideration for the extension of subsequent subsidies. The subsidized government should submit a detailed plan for projects, together with estimated expenditures, to the subsidizing government for approval. If such a project is to be properly administered by the subsidized government, it is necessary that the central government should exercise a direct supervision and control over its operation. Such supervision and control can be exercised in two ways: by sending experts to direct the administration of such projects, and by requiring a detailed report of all operations to be made to the central government.

To conclude, the government must determine to enforce the laws it has already enacted. In spite of their defects, these laws are better adapted to meet the demands of the people than previous laws. It is recognized, of course, that war conditions restrict the efficiency of the government in this regard, but it is hoped that, when peace comes, fuller action on the part of the government will be undertaken. It is in the firm belief that enforcement can and will be undertaken by the government that this study has been made.

